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Building Children's Assets in Singapore: The Beginning of a Lifelong Policy

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Summary

Singapore has comprehensive lifelong asset-building policies for its citizens. Four programs[1] specifically target children: (1) Children Development Accounts (CDAs) for children starting at birth to age 12; (2) the Edusave account for school children aged six to 17; (3) Postsecondary Education Accounts (PSEAs) for children aged 13 years and older; and (4) the Medisave Account, which is opened for every newborn.

Unused balances in CDAs, Edusave accounts, and PSEAs are rolled over to the Central Pro vident Fund (CPF)[2] account, which follows the account holder for the rest of his or her life. The Medisave account is a subcomponent of the CPF account system.

[1] While the various programs are categorized as asset-building in orientation, the underlying purposes are more complex. The objectives behind each policy are different, ranging from supporting families and investing in children, to promoting birth rates. Asset building is seen as a means towards these various ends.

[2] The Central Provident Fund is a mandatory savings account to which every employed person contributes, with matched contributions from employers. The savings, while primarily meant for retirement, can be used for medical expenses and for a variety of asset-building purposes such as the purchase of homes, investments, investment-linked life insurance, and tertiary educational expenses.

Baby Bonus Scheme and Children Development Accounts

In 2001, the Singapore government introduced the Baby Bonus Scheme as part of the government's overall effort to increase fertility rates and create an environment conducive to raising families. Since its inception, several enhancements had been made to the Baby Bonus Scheme.

The Baby Bonus Scheme has two tiers. The first tier consists of an unrestricted cash gift from the government of S$8,000 (US$5,770) each for the first and second child, and S$10,000 (US$7,125) each for the third and subsequent children. This cash gift is disbursed directly into a designated bank account in five installments over 18 months beginning at the birth of the child.

The second tier consists of a CDA wherein savings are matched. The government will match families' contributions at 1:1 up to a cap of S$6,000 (US$4,260) for the first and second child, and a cap of S$12,000 (US$8,520) each for the third and fourth children, a cap of S$18,000 (US$12,780) each for the fifth and subsequent child. The matching contribution is an important feature of the scheme because it recognizes that parents have the primary responsibility of supporting their children.

Funds in the CDAs may be used to cover expenses related to childcare; preschool and kindergarten; special education or early intervention programs; and for medical care, pharmaceuticals, assistive technology devices, eye care, and health insurance. The unused account balance in a child's CDA is transferred to the child's PSEA when the child turns 13.

Edusave Scheme

Singapore's Edusave Scheme was implemented in 1993 for school children aged between the seven and 16 years with the objective of maximizing their educational opportunities. Three main facets of the Edusave Scheme that directly benefit children are (1) Edusave Contributions, (2) Edusave Awards, and (3) Edusave Scholarships. The Edusave Scheme is funded by income generated by the S$5.5 (US$3.9) billion Edusave Endowment Fund, which was built from government contributions.

The government opens an interest-earning Edusave account for each child that attracts annual government contributions. The annual Edusave contribution rate as of 2015 is S$200 (US$141) for primary-level (grades 1–6) students, and S$240 (US$170) for secondary-level (grades 7–10) students. Edusave accounts also receive additional top-ups from the government. For example, there is a one-off top-up of S$150 (US$106) per student in 2015, in addition to the annual contribution.

Savings in the Edusave accounts can be used only for enrichment programs for the children. Unused balances in the Edusave account are transferred to the child's PSEA when the child reaches 16 or when he or she leaves secondary school, whichever is later.

In addition to annual contributions, Edusave awards provide unrestricted incentives of between S$100 (US$71) and S$500 (US$353) annually to students who perform well or make good progress in academic or cocurricular activities through various Edusave awards and through means-tested Edusave Bursaries for children from low-income families.

To ensure that no promising child is deprived of an independent school education (equivalent to private school education in the United States), the top performing students in the independent schools have their school fees largely, if not fully, paid through various Edusave Scholarships that award up to S$2,400 (US$1,700) each year.

Postsecondary Education Account

Established in 2005, PSEAs are part of the government's efforts to encourage every Singaporean to build a pool of financial resources to pursue and complete postsecondary education.

PSEAs are automatically opened for every Singaporean child the year they turn 13. If the parents have not saved up to the CDA contribution cap, they can continue to save in this account and receive the government's matching grant for contributions to the PSEAs until the contribution cap is reached, or when the child turns 18, whichever is earlier.

Children aged between seven and 20 also have opportunities to receive additional government top-ups. For example, in 2015, children's aged 17 to 20 years receive either S$250 or S$500 (US$177 or US$353) depending on their household economic status.

Unused savings in a child's CDA are transferred to the PSEA when the child turns 13.

Funds in the PSEAs earn interest (currently at 2.5% per annum), and can be used for approved postsecondary education expenses. Unused balances will be transferred to the account holder's CPF account when the account holder reaches age 30.

Medisave Account for Newborns

In 2013, the Singapore government opened Medisave Accounts for all newborns, seeded with an initial grant of S$3,000 per child. The Medisave Account is a health-savings account that is a part of the CPF system. Funds in the Medisave account can be used to defray the cost of health-care expenses such as vaccinations, hospitalizations, approved outpatient treatments, and premiums for a basic catastrophic health insurance plan. The Medisave Grant for Newborns was increased to S$4,000 in 2015—sufficient to fully pay the premiums for the child's Medishield Life coverage until the child reaches 21.

Central Provident Fund Account

The CPF is a comprehensive mandatory savings system. It is a defined contribution scheme meant for retirement; asset-building through homeownership, education, and investments; and health care. A CPF account is opened for every Singapore citizen and permanent resident when they are first employed. For the self-employed, CPF is optional.

The CPF scheme is the bedrock of Singapore's social security framework, providing the vehicle and opportunities for account holders to accumulate assets, leverage the assets in housing and other investments, and protect and preserve the generated assets.

The CPF enables all Singaporeans to build assets over their lifetimes by requiring 37% of pretax wages (20% from the employee and up to addition 17% in matched contributions from employers) to be saved in the CPF accounts.[3] Contributions into the CPF accounts are then apportioned to the following subaccounts: (1) Ordinary Account (OA) with an annual interest rate currently pegged at 2.5%; (2) the Special Account (SA) for retirement; and (3) the Medisave Account (MA) for health care. Both SA and MA earn interest that is 1.5% higher than the prevailing interest rate for the OA to help account holders build their savings faster.

The CPF also enables account holders to leverage the accumulated assets by allowing savings in the OA to be used for homeownership purposes (e.g., downpayment, mortgage servicing), to pay for educational pursuits, and to invest in equities and precious metals.

Finally, the CPF protects and preserves the assets of account holders through provision of various annuity and insurance products. For example, there is CPF Life that provides a guaranteed income for life and Medishield Life that covers major health-care expenses.

[3] These figures vary over time.

Assessment

Singapore is an interesting case study in asset building. It is one of few countries, if not the only, where "asset enhancement" is the bedrock of its social welfare and economic development policies. The asset-building accounts referenced in this brief are part of this larger asset-building endeavor.

Several innovative features of the Singapore model are noteworthy. First, the policies and the asset-based accounts are designed as a partnership between the government and its citizens in the asset-building process. The government's role is to create an environment that is conducive to asset building by investing heavily in health care, education, homeownership, and other social development priorities. At the same time, accounts provide access to asset-building opportunities. While the government kick-starts the asset-building process with endowments and transfers into accounts, individuals build and leverage the accounts to capitalize on opportunities that arise.

Second, the multiple asset-building policies of Singapore are designed to meet asset-building needs at different life stages. As discussed, funds in Medisave for Infants and Child Development Accounts promote development during early childhood, covering expenses for health care, early intervention programs, and childcare and preschool. Funds in Edusave and Postsecondary Education Savings accounts are meant for educational opportunities from school age into early adulthood. For adults, primary asset-building needs of education, health care, investments, homeownership, and retirement are addressed through the CPF. This approach is unlike asset-building accounts in most other countries, where the use of the accounts is limited to purposes at particular stages in life, typically for postsecondary education or retirement.

Third, though multiple asset-building policies target specific life stages of the accountholder, such policies are seamlessly integrated to provide a system of asset building throughout the life of the account holder. For example, unused balances in the CDAs and Edusave are automatically rolled over into the PSEA, which in turn rolls over into the CPF account if not fully used by age 30. In addition to unused funds being rolled over, savings match funds that remained in the CDAs are also rolled over to the PSEA. In this sense, the various asset-building accounts could be described as a single lifelong account with specific and different uses at different life stages.

Lastly, the asset-building approach in Singapore is constantly evolving. As with every policy, there are inevitable inefficiencies and unintended effects. Asset-building policies are continually being assessed to find areas for improvement. For example, the CPF was the first asset account in Singapore, with use of CPF funds limited initially to retirement. Since its inception, the use of the CPF has extended to include homeownership, health care, investments, education, and asset protection. In addition, over the last 25 years, the government has expanded asset-building opportunities not only for adults through the CPF, but to every citizen starting from birth.

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